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Message Text

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ACTION ARA-10

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L-02 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

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SUBJECT: FINANCE MINISTER'S REVIEWS ECONOMIC PERFORMANCE
1973-1974 AND PROSPECTS FOR 1975-76

FOR: MTN DELEGATION

SUMMARY: FINANCE MINISTER VARGAS GAVILANO IN A NATIONALLY TELEVISED SPEECH FOLLOWED BY A NON-TELEVISED PRESS CONFERENCE REVIEWED PERU'S ECONOMIC PERFORMANCE DURING 1973-74 AND ITS PROSPECTS FOR 1975-76. AFTER POINTING OUT THE SUCCESSES OF THE PAST TWO YEARS, HE SAID THAT 75 AND 76 WOULD BE DIFFICULT YEARS CALLING FOR AUSTERITY, BUT THAT THE COUNTRY WAS NOT FACING AN ECONOMIC CRISIS. HE INDICATED THAT NO ADDITIONAL TAXES WOULD BE FORTHCOMING, THAT SUBSIDIES OF BASIC FOOD ITEMS WOULD BE CONTINUED, HOWEVER AT REDUCED LEVELS, AND THAT THE PRICE OF GASOLINE FOR PERSONAL USE IN PRIVATELY OWNED VEHICLES MIGHT BE RAISED, AGRICULTURAL PRODUCTION IS TO BE STIMULATED AND INTERNAL SAVING ENCOURAGED. HE PREDICTED SOMEWHAT SLOWER GNP GROWTH FOR THE 75-76 BIENNIUM, WITH SIGNIFICANT REDUCTIONS IN BOTH CONSUMPTION AND INVESTMENT, ESPECIALLY PUBLIC INVESTMENT, AND SIEZEABLE NET BASIC BALANCE OF PAYMENTS
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DEFICIT. END OF SUMMARY

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1. MINISTER OF ECONOMY AND FINANCE ALMICAR VARGAS GAVILANO IN A NATIONALLY TELEVISED SPEECH FOLLOWED BY A NON-TELEVISED PRESS CONFERENCE ON FEB 13 REVIEWED THE PERFORMANCE OF THE PERUVIAN ECONOMY DURING 1973-1974 BIENNIUM AND THE ECONOMIC PROSPECTS FOR THE PRESENT BIENNIUM. AFTER POINTING OUT THE SUCCESSES OF THE PAST BIENNIUM, HE NOTED THAT 1975-76 WOULD BE DIFFICULT YEARS CALLING FOR AUSTERITY, BUT THAT THE COUNTRY WAS NOT FACING AN ECONOMIC CRISIS AS WAS BEING REPORTED OUTSIDE THE COUNTRY BY "INTERESTED PERSONS WHO DELIBERATELY WANT TO DISTORT THE TRUTH". THE MAJOR POINTS OF HIS SPEECH AND PRESS CONFERENCE FOLLOWS.

2. SUCCESSES OF THE PAST BIENNIUM: THE MAJOR ACCOMPLISHMENTS OF THE PAST BIENNIUM WERE AS FOLLOWS: REAL GNP FROWTH 6.6 PERCENT; UNEMPLOYMENT REDUCED FROM 4.2 PERCENT TO 4.0 PERCENT AND UNDERIMPLOYMENT REDUCED FROM 41.3 PERCENT TO 35.6 PERCENT; CONSUMAR PRICE INCREASE HELD TO 16.9 PERCENT DESPITE 28.9 PERCENT INCREASE IN IMPORT PRICES; CENTRAL GOVERNMENT BUDGET DEFICIT HELD TO S/.3.9 BILLION OR 2 PERCENT OF GROSS RECEIPTS; OVERALL BALANCE OF PAYMENTS SURPLUS OF $287 MILLION. NET INTERNATIONAL RESERVES ROSE TO $702 MILLION AT THE END OF 1974. THE MINISTER ALSO POINTED OUT THAT CONSIDERABLE PROGRESS HAD BEEN MADE ON STRUCTURAL REFORMS AND PUBLIC INVESTMENT PROGRAM AND THAT LOW INCOME CONSUMER HAD BENEFITED FROM GOVERNMENT SUBSIDIES.

2. PROSPECTS FOR CURRENT BIENNIUM: THE MINISTER ESTIMATED REAL GNP GROWTH OF ONLY 5.8 PERCENT AND 6.1 PERCENT, FOR 1975 AND 1976 RESPECTIVELY, WITH CONSUMPTION TO INCREASE BY 5.0 PERCENT AND 5.8 PERCENT AND INVESTMENT BY 13.8 PERCENT AND 1.7 PERCENT RESEPCTIVELY. PRICES ARE EXPECTED TO INCREASE BY 20 PERCENT ANNUALLY DURING THE BIENNIUM, AND THE BUDGETARY DEFICIT WILL BE ELIMINATED. THE BOP IS EXPECTED TO REGISTER NET BASIC BALANCE DEFICITS OF $296 MILLION AND $553 MILLION FOR 1975 AND 1976 RESPECTIVELY. NO MENTION WAS MADE OF HOW THESE DEFICITS ARE TO BE FINANCED.
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3. SUBSIDIES: MINISTER VARGAS PROMISED THAT THE GOP WOULD CONTINUE SUBSIDIZING BASIC FOOD ITEMS, HOWEVER HE SAID THE CONSUMER WOULD HAVE TO SHARE PARTIALLY THE BURDEN OF RISING PRICES. HE INDICATED THA THE GOP MIGHT RAISE THE PRICE OF GASOLINE FOR PERSONAL USE IN PRIVATELY OWNED VEHICLES WITH CONCURRENT ELIMINATION OF TWO DAY DRIVING BAND. OTHERWISE PRICES OF GASOLINE

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AND OTHER PETROLUEM DERIVATIVES WILL REMAIN THE SAME.

4. TAXES: THE MINISTER SAID THAT RECENT TAX INCREASES WOULD BE SIFFICIENT AND THAT NO ADDITIONAL TAX INCREASES WOULD BE FORTHCOMING.

5. AGRICULTURE: MINISTER VARGAS POINTED OUT THE NECESSITY OF INCRASING FARM PROFITS TO STIMULATE AGRICULTURAL PRODUCTION AND NOTED THAT PRICES AT THE FARM LEVEL WERE BEING INCREASED. HE DID NOT DIRECTLY MENTION THE SHORTAGES THAT HAVE BECOME MORE FREQUENT IN RECENT MONTHS.

6. SOCIAL PROPERTY: HE ESTIMATED THAT INVESTMENTS IN SOCIAL PROPERTY ENTERPRISES WOULD REACH S/.3 BILLION IN THE CURRENT BIENNIUM. IN RESPONSE TO A QUESTION, HE SAID THAT ENTERPRISES WITH HEAVY TAX DEBTS WOULD NOT BE FORCED TO CONVERT TO SOCIAL PROPERTY.

7. COMMENT: SOME INTERESTING APPARENT CHANGES IN POLICY WERE VISIBLE IN MINISTER VARGAS SPEECH AND PRESS CONFERENCE. THE GOP HAS OBVIOUSLY DECIDED FINALLY TO INCREASE FARM LEVEL PRICES TO STIMULATE PRODUCTION REVERSING PREVIOUS POLICY. ALSO, AN ALLUSION WAS MADE TO THE NEED TO STIMULATE PRIVATE INVESTMENT, HOWEVER THE MEANS OF DOING SO WERE NOT SPECIFIED. THE DECISION HAS BEEN MADE EVIDENTLY TO REDUCE SUBSIDIES ACROSS THE BOARD. IN OTHER WORDS, THE GIST OF THESE DECISIONS SEEMS TO BE A RETURN SOMEWHAT TO RELIANCE ON THE PRICE SYSTEM FOR INCENTIVES AND RESOURCE ALLOCATION. IN ADDITION, THE REDUCTION IN THE RATE OF GROWTH PUBLIC SECTOR INVESTMENT PREVIEWED FOR 1975 AND 1976 (-4.1 PERCENT IN 1976) SEEMS OUT OF CHARACTER GIVEN THE TRENDS OF THE UNCLASSIFIED

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PAST FEW YEARS. THE EXPLANATION GIVEN WAS THAT MOST OF THE MASSIVE PUBLIC SECTOR INVESTMENTS WOULD BE COMPLETED DURING THE NEXT YEAR.

THE MINISTER REMARKED, AGAIN IN RESPONSE TO A QUESTION, THAT THOSE BUSINESSES DAMAGED IN THE RECENT RIOTS WOULD BE HELPED FINANCIALLY BY THE GOVERNMENT. HE MADE NO MENTION OF THE RIOTS IN HIS SPEECH, HOWEVER HE DID CLOSE BY SAYING THAT THE COUNTRY'S ECONOMIC GOALS WOULD BE REACHED WITH HELP OF ALL PERUVIANS UNITED FOR THE GOOD OF THE COUNTRY UNDER THE SIGN OF AUSTERITY, WORK AND SOCIAL PEACE. ANALYSIS OF ECONOMIC TRENDS WILL BE PRESENTED IN SEPTEL.
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